

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2000-808

February 13, 2001

MAINE PUBLIC UTILITIES COMMISSION
Standard Offer Bidding Process

ORDER DIRECTING
CENTRAL MAINE POWER
COMPANY TO CONTRACT FOR
WHOLESALE POWER SUPPLY
AND ESTABLISHING
STANDARD OFFER PRICES
(PART II)

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

In this Order, we direct Central Maine Power Company (CMP), pursuant to Chapter 301, § 8(B)(2) of our rules, to enter into two wholesale power contracts for the purpose of providing standard offer service to the medium and large non-residential standard offer classes in its service territory. Based on the wholesale supply costs, the standard offer rate for the medium class will be \$0.08520/kWh. The standard offer rate for the large class will be:

	<u>Non-Summer</u>	<u>Summer</u>
On-peak	\$0.08971	\$0.14576
Off-peak	\$0.05596	\$0.06543

II. BACKGROUND

Section 3212 of Title 35-A and Chapter 301 of our rules require that the Commission conduct a bid process to select standard offer providers for electricity customers who do not otherwise obtain service from the competitive market. To meet this responsibility in the CMP service territory, on October 2, 2000, the Commission issued a Request for Bids (RFB).¹

On December 22, 2000, the Commission terminated the RFB process with respect to the standard offer classes within CMP's service territory. We concluded that, because of the timing of our RFB, the bid price proposals we received were adversely affected by high price levels and volatility in the wholesale electricity markets, which in

¹ During last year's process, the Commission selected a standard offer provider for CMP's residential and small non-residential class for a 2-year period ending February 28, 2002.

turn appeared to be caused by high prices and even greater volatility in natural gas markets and the December 13, 2000, FERC decision on installed capability (ICAP) deficiency charges. December 21 was the last day pursuant to our RFB for potential standard offer providers to submit bid price proposals. Because the impact of the natural gas market and the FERC decision could be transient, we decided to terminate the RFB process without accepting any of the bid proposals.

In our December 22 Order, we decided to pursue two alternative processes simultaneously to enhance the opportunities for establishing reasonably-priced standard offer service for customers in the medium and large classes beginning on March 1, 2001. The Commission continued to entertain price proposals from bidders who were qualified in our RFB process. We also directed CMP to explore wholesale power supply arrangements that would permit it to serve as the standard offer provider beginning on March 1, 2001.

Subsequently, CMP sought direction from the Commission regarding its solicitation of wholesale supply. CMP representatives met several times with the Commission, its staff and the Public Advocate. At the meetings, CMP provided updates regarding its bid process, evaluation of bids and outstanding issues regarding standard offer supply. In addition, CMP has communicated daily with our staff regarding its progress in securing wholesale standard offer supply.

On February 7, 2000, CMP filed two wholesale contracts with two separate suppliers. One contract would supply the medium class and the other would supply the large class. The contract to serve the medium class is an all-requirements wholesale contract. The large class contract is a requirements-type contract that includes all costs other than ICAP. Both contracts are for a one-year period. CMP recommended that it enter these contracts because they provide the lowest obtainable fixed prices and greatest degree of price predictability for CMP customers. CMP also stated that the contract rates are reasonable given current market conditions and the nature of standard offer service, and that the supply mix will satisfy the eligible resource portfolio requirement.

The February 7th filing also contained CMP's recommendation for standard offer pricing. For the medium class, CMP requested a flat annual price be set. For the large class, CMP recommended that the prices be seasonally differentiated with a higher priced summer period (consisting of June, July and August) and time-differentiated with on-peak and off-peak periods. The prices recommended by CMP are based on the cost and structure of the underlying wholesale contracts.

The Public Advocate, based on his evaluation of the market, has indicated support for CMP's petition.

III. DISCUSSION

A. Supply Contracts

We have reviewed the materials and wholesale contracts included in CMP's February 7th petition. Additionally, as stated in its petition, CMP has briefed us on a regular basis as to its efforts to secure a wholesale supply. Based on our review of the contracts and current market conditions, we find the contracts to be reasonable wholesale standard offer supply arrangements. We, thus, direct CMP to enter the contracts and to provide standard offer service to customers in medium and large standard offer classes for the period March, 2001 through February, 2002.

As stated above, the wholesale contract for the medium class is an all-requirements contract with a single fixed price. This enables us to establish a single standard offer price for the 12-month period beginning March 1, 2001, without the uncertainty that changes in market conditions could force future rate increases. The contract price itself is in line with current wholesale market prices.

The wholesale contract for the large class is a requirements-type contract that does not include ICAP costs. Because of the customer migration risk associated with large customers, CMP was unable to obtain a full-requirements contract that includes ICAP for the large class. Except for ICAP, however, CMP's customers are not at risk for changes in market conditions and a careful management of ICAP during the contract period should minimize market risk in this regard.

We agree with CMP that the wholesale contracts represent the best obtainable requirements-type supply arrangements under current market conditions taking into account the nature and risks of supplying standard offer service. We conclude that the process undertaken by CMP to procure these power supplies (including the decision not to fix an ICAP price for the large class at this time), and the execution of the power supply agreements constitute prudent management actions.

B. Standard Offer Prices

Effective March 1, 2001, the standard offer price for the medium class will be \$0.08520/kWh. The prices for the large class will be:

	<u>Non-Summer</u>	<u>Summer</u>
On-peak	\$0.08971/kWh	\$0.14576/kWh
Off-peak	\$0.05596/kWh	\$0.06543/kWh

These prices are based on the underlying supply costs, adjusted to account for losses, uncollectibles and administrative costs. Because prices are based on actual costs, under- or over-collections and associated deferrals will be minimized, and standard offer customers will pay the actual market costs of their service.

Because the supply contract for the medium class is an all-requirements arrangement, the price we set for the class should not change for the 12-month period. However, as stated above, the contract for the large class does not include ICAP. For purposes of establishing the large class prices, we have assumed an ICAP cost of \$3.00/kW-month (based on the current forward price for ICAP). If the market cost of ICAP increases significantly above this amount, we may increase the large class standard offer prices. Thus, customers should not assume that the large class prices will remain unchanged for the 12-month period. However, we emphasize that we will not lower the rate throughout the period so as not to undercut competitive providers who are marketing against the standard offer.

Finally, for the period March 1, 2001 through February 28, 2002, standard offer customers will not be eligible for fixed price standard offer service for that portion of their load that results from their sale of generation into the market pursuant to a post March 1, 2001 registration or reregistration of their own generation to the ISO-NE as supply assets subject to central dispatch under the NEPOOL rules.² This restriction is necessary because of the prospect of a customer's gaming the standard offer by selling its generation that had been used to serve its own load into the market and then serving the load through the standard offer. Such a scenario presents a substantial risk to suppliers that a large amount of load will suddenly appear on the standard offer at time when the cost to serve that load will be high. As a result, without a restriction to prevent this type of intentional arbitrage, the price of standard offer service for all customers in the large class would have to be increased significantly.

Accordingly, we

O R D E R

1. Central Maine Power Company to provide standard offer service to the medium and large non-residential standard offer customer classes in CMP's service territory for the period March 1, 2001 through February 28, 2002;
2. Central Maine Power Company to execute the power supply contracts attached in its February 7, 2001 petition as Confidential Exhibits 1 and 2;
3. That the Commission finds that Central Maine Power Company has acted prudently in negotiating and executing the contracts attached in CMP's February 7th petition as Confidential Exhibits 1 and 2;

² We have discussed this matter with customers for whom this restriction might apply. These customers have indicated that they have no intention to register generation that is now serving their own load so that the generation could be sold into the market.

4. That the Commission finds Central Maine Power Company's decision, at this time, to not contract for the Installed Capability (ICAP) requirements for serving the large non-residential standard offer class and to take the price and volume risk associated with ICAP, to be prudent; and
5. That the standard offer prices for the medium non-residential standard offer customer class effective March 1, 2001 will be \$0.08520 per kWh and that the standard offer prices for the large non-residential standard offer customers shall be:

	<u>Non-Summer</u>	<u>Summer</u>
On-Peak	\$0.08971	\$0.14576
Off-Peak	\$0.05596	\$0.06543

Dated at Augusta, Maine, this 13th day of February, 2001.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
 Nugent
 Diamond

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Civil Procedure, Rule 73, et seq.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.